



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DOCKET FILE COPY ORIGINAL

PUBLIC UTILITIES COMMISSION  
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April 11, 1996

APR 12 1996

Office of the Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: In the Matter of Rules and Policies on Universal Service;  
CC Docket No. 96-45

Dear Commission Secretary:

Enclosed are an original and twelve (12) copies of the State of Rhode Island's Comments on the Notice of Proposed Rulemaking in CC Docket No. 96-45. Please distribute the filing as appropriate, and file mark the extra copy and return it in the enclosed self-addressed, stamped envelope.

Thank you for your attention to this matter.

Sincerely yours,

Adrienne G. Southgate  
General Counsel

Encl.

No. of Copies rec'd  
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APR 12 1996

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: NYNEX FORM OF REGULATION; SERVICE QUALITY DOCKET NO. 2370**

**SETTLEMENT AGREEMENT**

The Division of Public Utilities and Carriers (the "Division") and New England Telephone and Telegraph Company, d/b/a NYNEX ("NYNEX") have reached agreement on the following terms, and they submit this Settlement Agreement ("Agreement") for the Commission's approval.

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The Parties agree that NYNEX should be regulated pursuant to the terms of the Price Regulation Plan (the "Plan"), attached hereto as Appendix 1. During the Plan, NYNEX will file annual financial reports with the Division and Commission in the same form used during the Price Regulation Trial in Docket No. 1997. In addition, NYNEX agrees to provide additional information the Division and the Commission may reasonably request, subject to appropriate proprietary arrangements, that would assist the Division or the Commission in analyzing and evaluating NYNEX's financial results under the Plan.

2. Pricing Plans

A. Thirty days after the Commission's approval of this Agreement, NYNEX will file a tariff introducing a new Statewide Calling Plan option for residence customers that will allow unlimited intrastate toll calling for a rate of \$25 per month.

B. NYNEX will file a report with the Division and Commission regarding the introduction of the new Statewide Calling Plan option as part of its second annual filing, as described in Section 3 of the Plan. This report will consist of a study of the revenue effect of the implementation of the new Statewide Calling Plan option by multiplying the average revenue per minute of all other residence toll customers by the minutes of use of the new Statewide Calling Plan option customers and subtracting the revenues received from the new Statewide Calling Plan option customers. That study will be made by an examination of the monthly data from the most recently available three-month period, which will then be annualized to demonstrate the annual revenue effect.

If the study demonstrates that the annual revenue effect is between \$2 and \$3 million, no action will be taken. If the revenue effect is less than \$2 million, NYNEX will file a tariff to reduce the price of the new Statewide Calling Plan option in order to increase the revenue effect to \$2 million. If the revenue effect is more than \$3 million, NYNEX may file a tariff to raise the price of the new Statewide Calling Plan option to reduce the revenue effect to \$3 million.

C. As part of its first annual filing as described in Section 3.A of the Plan, NYNEX will propose changes to the pricing for local usage that will lower NYNEX's revenues from local usage by \$1 million on an annual basis.

D. The effects of the pricing changes described in paragraphs A-C, above will not be considered in the calculation of the overall API or any Service Group API.

E. The total revenue effect of the pricing changes described in this Section and Data Network Access described in Section 3 of this Agreement is an annual revenue reduction of approximately \$4 million.

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NEW ENGLAND TELEPHONE AND  
TELEGRAPH COMPANY, d/b/a NYNEX

D. F. Johnson

NAME: DAVID F JOHNSON

TITLE: COUNSEL

DATE: 1/31/96

RHODE ISLAND DIVISION OF  
PUBLIC UTILITIES AND CARRIERS

Scott Sawyer

NAME: SCOTT SAWYER

TITLE: SPECIAL ASSISTANT ATTORNEY GENERAL

DATE: 1/31/96

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

APR 12 1996

In the Matter of	)	
	)	
Rules and Policies on	)	CC Docket No. 96-45
Universal Service	)	
	)	

**Rhode Island Public Utilities Commission's  
Comments on Notice of Proposed Rulemaking**

The Rhode Island Public Utilities Commission ("RIPUC") accepts the Federal Communications Commission's invitation to comment on its Proposed Rulemaking on Universal Service. RIPUC, in keeping with many other states, opened a docket on telecommunications competition issues some time ago.<sup>1</sup> The list of issues included in RIPUC's interim order is similar in scope to the Telecommunications Act of 1996, and includes universal service funding.

While the competition docket was proceeding through discovery and technical conferences, the Price Regulation Trial ("Trial") established in 1992 for Rhode Island's local exchange company, NYNEX, was coming to an end. NYNEX negotiated a settlement with the Division of Public Utilities and Carriers on a successor Price Regulation Plan ("Plan"),<sup>2</sup> which would govern the company's operations through 2000. Section Three of the Plan, which received considerable attention and community approbation, was the continuation of free data network access to public and not-for-profit schools and public libraries, a program begun during the earlier Trial.

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<sup>1</sup> Docket No. 2252, opened October 25, 1994.

<sup>2</sup> Docket No. 2370, filed January 31, 1996. The Settlement Agreement is attached hereto as Appendix A.

When RIPUC convened public hearings on the Plan, comments were submitted by the New England Cable Television Association, Inc. ("NECTA"). NECTA's critique of the data network access portion of the Plan is the basis for RIPUC's comments on the NOPR.

NECTA maintains that NYNEX's agreement to furnish services to K-12 schools and public libraries is anti-competitive in effect and will preclude these entities from obtaining more efficient services.

The first argument assumes that NYNEX's non-competitive service ratepayers must subsidize a competitive service (data network access). NECTA alleged, "NYNEX will attribute at least \$7.5 million in revenues collected from its monopoly customers to the provision of [data network] services to public schools and libraries during a five (5) year period."<sup>3</sup> However, testimony at the public hearing was that NYNEX would absorb the costs associated with the services. In effect, shareholders rather than ratepayers would bear the costs.

The second argument asserts that NYNEX's offer binds users, stifling facilities-based competition through cross-subsidization and potentially resulting in delivery of less than optimum services at inflated prices. The cross-subsidy issue is a red herring, since NYNEX does not intend to "subsidize" the Section Three services through ratepayer contributions. There is no violation of Section 254(k) of the Act. While it is certainly true that schools and libraries have every incentive to avail themselves of the free services offered by NYNEX, particularly since municipal and state budgets rarely extend far enough to cover all the data access needs, NECTA's argument is flawed because Rhode Island cable television franchisees also have service obligations to schools and libraries. If data network access were made universally available by CATV, without charge to the target population, users would have a choice during the short term. Longer term,

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<sup>3</sup> Comments of New England Cable Television Association, Inc., March 26, 1996, p. 6.

the CATV requirement (a matter of state law) will endure; the Settlement Agreement expires after five years, at which time NYNEX may find itself in a very different competitive posture, such that absorbing the expenses for data network access may be impossible.

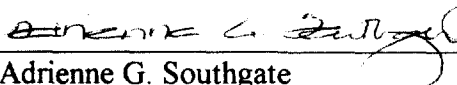
RIPUC has included this summary of NECTA's remarks because they demonstrate how a broad definition of universal service could actually prejudice the entities which the Act intended as beneficiaries. Shouting "cross-subsidy" does not advance the debate about universal service funding mechanisms, but it creates a regulatory climate in which negotiated benefits are suspect. If RIPUC were persuaded by NECTA, the free data network access negotiated in the Settlement Agreement would have to be rejected.

Our state was amongst the leaders in requiring the local exchange carrier to provide free data network access to schools and libraries. It would be ironic if the Act were misinterpreted to preclude continuation of this essential tool.

RIPUC respectfully requests the FCC to consider these points in promulgating its regulations on universal service.

Respectfully submitted,

STATE OF RHODE ISLAND  
PUBLIC UTILITIES COMMISSION

  
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State Bar No. 3363  
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